

JSE STARTS THE NEW YEAR ON A HIGH

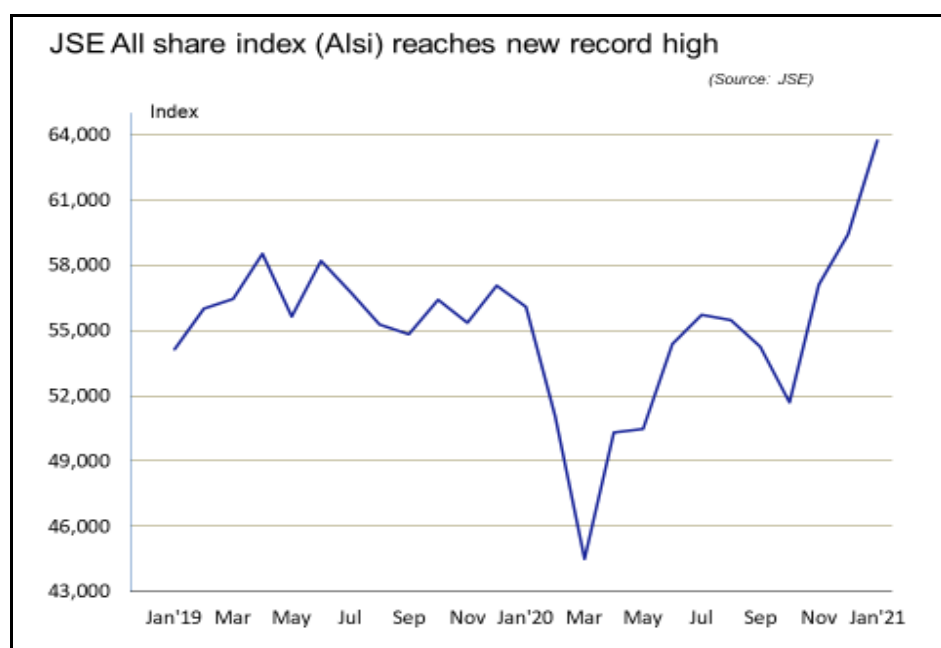
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The JSE is very much part of a near-universal equity market bull-run that shows no signs of tapering off in a hurry.

Despite a general mood of despondency surrounding the second wave of Covid-19 infections and the continued presence of some lockdown regulations, the demand for equities has continued a pronounced upward trend that was sparked in November 2020 by the news of a vaccine against the corona virus.

The New Year has started on a high note for the JSE, with the all share index (Alsi) hitting a new record high of above 60,000 on the first trading day and then surging ahead to reach a level of 63,885 on 14 January.



This represents an increase of 7.5% from 31 December and a whopping increase of more than 65% from the Covid-induced low of 38,600 that was recorded in March 2020. This is more or less in line with the recovery of the S&P 500 index in the US and most of the major global equity markets have also rallied since November last year.

Risk-on sentiment returns

A number of reasons exist for believing that equity markets will continue to climb in 2021, especially due to the return of a risk-on sentiment amongst institutional investors.

The reaction to the announcements of positive Covid-19 vaccine trials has reflected a clear belief that life could soon return to normal, with profound positive effects now materialising for three groups of equities, namely commodities, some of the so-called "stay-at-home" sectors and

companies that are part of the “back-to-normal” environment that is slowly but surely developing around the globe.

Although high-tech shares have been under pressure since the vaccine breakthrough, the shift to normality will be slow and incomplete, as consumer behaviour has undergone a structural change.

Investors that are wary of possible over-priced resources shares should keep in mind that global GDP is bound to grow at a healthy rate over the next couple of years and that China and India, the two most populous nations on earth, will in all likelihood be leading the pack.

Upward phases of the commodity price cycle often last for several years and the current one is still at an early stage. It started in 2019, but was interrupted by the Covid-19 pandemic.

Of late, the commodity price cycle is surging ahead, with the notable exception of the energy sector. The World Bank emerging market commodity price index for energy declined by 17% between 2019 (average) and December 2020, but the index for precious metals is up by 36% over this period.

Metals & minerals in demand

Prices of metals and minerals have also risen by more than 27%, on average, since 2019 and the current commodity boom for these commodities could last well into the future, as the global economy bounces back in 2021 and 2022.

Renewed investor interest in equities is not surprising, considering the prospect of the Covid-19 threat dissipating in the course of the year and the fact that the alternative of bonds is decidedly unattractive.

The yield on 12-month US bonds remains close to zero, whilst 10-year bonds offer a return of barely above one per cent. Returns on European bonds and money markets are also still close to zero and, in some cases negative, whilst several emerging markets offer attractive yields on a variety of investments. South Africa is no exception and the price/earnings ratio on the JSE is currently low, compared to most other bourses, including the S&P 500 and the German Dax.

Another reason for optimism over the prospects for equities in 2021 is related to the likelihood that dividend payments will be resumed during the course of the year.

In South Africa’s case, the impressive recovery of the country’s gross operating surplus, which increased by R112-billion during the third quarter, is a clear signal that investors will soon be rewarded for their patience during the pandemic, when dividends were few and far between.